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Atlantic Canada
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du Canada atlantique

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Helping People Succeed in Business

Five-Year Report to Parliament 1988-1993

Executive Summary



Canada



ATLANTIC CANADA OPPORTUNITIES AGENCY
FIVE-YEAR REPORT
TO
PARLIAMENT
1988-1993

EXECUTIVE SUMMARY



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**ATLANTIC CANADA OPPORTUNITIES AGENCY
FIVE-YEAR REPORT TO PARLIAMENT**

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EXECUTIVE SUMMARY

BACKGROUND

Purpose of the Report

This report fulfils the requirements of Sub-section 21 (2) of the *Atlantic Canada Opportunities Agency Act* which requires, in part, that every five years the Minister for the Agency present to Parliament a comprehensive report on the Agency operations. The report is to provide an evaluation of the impact of ACOA's activities. This first report covers the financial commitments, expenditures and activities of the Agency from its creation in June 1987 until the end of fiscal year 1992-93.


The Case for Regional Development

Regional policy has been a part of national policy since Confederation and has been aimed at ensuring that the growth of Canada's prosperity is shared fully by all provinces in the country. Equality of opportunity is enshrined in the *Canadian Charter of Rights and Freedoms*, as Clause 36 commits federal and provincial governments to, inter alia, "furthering economic development to reduce disparity in opportunities".

If the disparity in opportunities is measured by access to employment, then the problem is the most severe in the Atlantic provinces because of persistent deep-seated structural problems. The disparity has persisted despite high out-migration from Atlantic Canada. For this reason, a concern with equality of opportunity for individuals has come to mean policies related to the economic realities of provinces and regions.

The Government Agenda

Strong regional economies are seen as the building blocks of Canada. Economic development, to be successful, must be based upon local communities. Regional development policies need to be adapted to the needs of communities.



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Background to the Creation of ACOA

The creation of ACOA on June 6, 1987 represented an initiative to decentralize decision-making in the area of regional development. This decision was based on the lessons learned in over 25 years of federal involvement in regional development, namely that:

- given varying economic circumstances among regions, support needs to be tailored to the region;
- program success is related to the degree of decentralization and on a practical and workable design at the local level; and
- major national policies and programs must be tailored to respond to regional needs.

The centralized approach had, in fact, resulted in the principal focus of assistance programs being in central Canada. Atlantic Canada's business community was impatient with the complex decision process of centrally designed and managed programs. National policies and criteria were not serving the region adequately.

Also, in 1986, a federal moratorium was placed on the signing of new federal-provincial agreements, primarily because the centralized approach was unable to reconcile federal priorities with regional development needs.

Objectives and Expectations

The mandate and objectives for ACOA were based on extensive consultations throughout the region which revealed a consensus that:

- economic development must come from within the region and a new emphasis must be placed on developing the private sector; and
- the people of Atlantic Canada must be encouraged to accept greater responsibility for the region's development.

At the time of the Agency's creation, the orientation of regional development policy changed from a focus on the reduction of regional disparities to a broader approach intended to assist each region attain its economic potential based on its comparative strengths. Accordingly, the major objectives for ACOA, as announced when it was created, were directed at overcoming structural problems. These objectives were:

- to stimulate and encourage entrepreneurship and risk capital, and to improve competitive skills;
- to develop a new partnership between the public and private sectors;
- to provide an improved decision-making authority with less red tape and quicker decisions; and
- to coordinate all federal economic development activities and advocate a regional perspective to national policies and programs.

The Agency was conceived as a long-term approach to economic development, not a quick-fix solution. Consistent with the need for decentralization, the Head Office of the Agency was to be located in the region. An Advisory Board of private sector persons was established to advise the Minister responsible for the Agency.

Mandate/Priorities/Programs

The Agency's legislation assigns it two main sets of powers to carry out its broad mandate of promoting economic development with particular emphasis on small and medium-sized business. One is to develop and manage programs and the other is to improve the regional sensitivity of national programs through advocacy of Atlantic Canadian interests.

Immediately after its creation, ACOA embarked on an unprecedented round of consultations within the region. These consultations set the pattern for what has become an essential part of the way the Agency does business. The first priority is to understand the problems of the region and solicit advice on solutions. Out of the advice from the consultations emerged the Agency mission statement:

"To foster, in a strategic partnership with the people of Atlantic Canada, the long-term economic development of the region through the renewal of the Atlantic entrepreneurial spirit"

and a set of priorities, shaped by national priorities, to guide Agency activities:

- *entrepreneurship development;*
- *trade and market development;*
- *innovation and technology transfer;*
- *human resource development; and*
- *procurement and industrial benefits.*

The Agency's principal program activities are:

ACTION: Risk-sharing with the region's entrepreneurs.

COOPERATION: Federal-provincial agreements to improve the development climate and coordinate federal-provincial programming.

ADVOCACY: To promote Atlantic Canada's interests in the development of national policies, programs and procurement.

COORDINATION: To coordinate federal policies and programs which affect Atlantic Canada.

SPECIAL PROGRAMS: To fund development measures not well-suited to regular programs. Included is the Fisheries Alternatives Program (FAP), an element of the Atlantic Fisheries Adjustment Program.

PAN-ATLANTIC DEVELOPMENT ACTIVITY: Recently introduced to support development initiatives which cut across the region.

Resources

In 1987, ACOA was allocated \$1.05 billion in new funding over the subsequent five-year period. In addition, \$345 million was transferred from the Department of Regional Industrial Expansion to ACOA for existing programs. In 1989, the Government extended the funding for ACOA by a further two years, added additional funds for the COOPERATION Program, and incorporated the resources for other government department (OGD) Economic and Regional Development Agreements (ERDAs) and General Development Agreements (GDAs). As of 1990, ACOA was placed on the same footing as any other department with a budget established annually.

Executive Summary

The following table provides the funding utilization for the Agency since inception. This table includes statutory payments as well as FAP.

ATLANTIC CANADA OPPORTUNITIES AGENCY REGIONAL DEVELOPMENT RESOURCE UTILIZATION 1987-88 TO 1993-94 \$000'S								
ACTIVITY	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	Total
DEVELOPMENT								
Action	45,227	171,062	249,456	191,084	185,096	150,370	148,591	1,141,486
COOPERATION (ACOA Delivered Only)	30,929	41,701	46,702	52,900	55,653	58,562	95,894	382,341
Special Programs				1,149	19,683	37,224	28,338	86,394
Advocacy & Coordination	790	2,563	3,060	2,913	2,813	2,570	3,400	18,109
Pan-Atlantic						14	1,050	1,064
Program Administration	1,926	6,243	7,454	7,859	8,077	7,750	7,500	46,809
Total - DEVELOPMENT	78,872	222,169	306,672	255,905	271,322	256,490	284,773	1,676,203
CORPORATE ADMINISTRATION								
- Operating	2,858	9,266	11,063	13,137	11,814	11,900	11,900	71,938
TOTAL AGENCY SPENDING	81,730	231,435	317,735	269,042	283,136	268,390	296,673	1,748,141
Loan Insurance Reserve		20,729	2,846	15,123	1,544	800		41,042
Transfers to OGD's for COOPERATION		6,100	32,532	67,971	94,047	117,645	100,892	419,187
Transfers to OGD's for "Other"*		5,324	8,390	12,360	38,079	24,548	17,763	106,464
TOTAL ACOA FUNDS UTILIZED	81,730	263,588	361,503	364,496	416,806	411,383	415,328	2,314,834

* Transfers to OGDs reflect ACOA's Coordination role. Funds are transferred to top up OGD programs where this is deemed the best way to support Atlantic region development.

BENEFITS TO THE REGION

ACOA's accomplishments must be assessed not only in terms of the extent to which its programs have contributed to economic growth and the reduction of disparities, but also in terms of how the Agency's activities have helped in overcoming structural barriers to growth.

Overall Economic Growth

The Atlantic economy has been dealt a double blow over the last two years: by the recession and by severe adjustment in major industries such as the groundfish fishery, defence, pulp and paper and mining. As is traditionally the case, the recession did not hit the region until 1991, a year later than the rest of the country, and the region is lagging the country in recovering. Unemployment remains persistently high across the country at over 11% and is especially severe in the Atlantic region at over 15%.

Nevertheless, over the 1987-92 period, Atlantic economic growth generally matched that for Canada. The disparity gap, as measured by Gross Domestic Product (GDP) per capita has narrowed from 71.6% of the Canada average in 1987 to 75.4% in 1992.

Regional development spending is very small relative to total federal spending in the region (less than 3% in 1992-93) or to the size of the Atlantic economy (just over 1% of Atlantic GDP in 1992-93).

External evaluations of the Action and COOPERATION Programs*, which together account for 85% of Agency expenditures, have estimated the following economic impacts:

- An impact on GDP of \$1.4 billion (constant \$1986) annually by 1992.
- An employment increase of 42,000 over the 1987 to 1992 period.

* Action Program Evaluation Summary Report, Price Waterhouse, November 1992, and COOPERATION Program Evaluation Study Report, Coopers & Lybrand Consulting Group (report in progress).

- In 1992, additional tax revenues were \$240 million annually, as compared to \$290 million of expenditures; tax revenues will reach \$600 million annually in 1999 without further expenditures beyond current commitments. Over the 1987-99 period, total tax revenues are forecasted at \$3.8 billion compared to \$2 billion in expenditures (actual and forecasted). Expenditures include Action Program expenditures plus federal and provincial expenditures on the COOPERATION Program.
- The activity of ACOA and its partners has accounted for about 85% of the narrowing in the disparity gap; as without this activity, the disparity gap in GDP per capita would have narrowed only marginally; from 71.6% of the Canada average in 1987 to 72.2% in 1992.
- The 1992 unemployment rate is over one percentage point lower than it would have been without the Agency activity.
- The productive investments supported by ACOA result in long-term impacts; the addition to GDP peaks at \$2.1 billion annually in 1997 without further expenditures beyond current commitments.

It should be noted that this impact is based only on those investment projects which would not have been undertaken without Agency support. Furthermore, these estimates are in addition to the impact on the economy which would have occurred if the equivalent expenditures had been spent on transfers to persons to support existing standards of living rather than to support productive investment.

While regional labour productivity, as measured by GDP per employee, has grown at the same rate as Canada over the 1987-92 period, it is only 87% of the national average in 1992.

Regional development activity has been successful in creating growth and jobs in the context of the relatively small amount of resources applied to it. However, the impact is small in relation to the total economy. The increase of \$1.4 billion in GDP amounts to about 4% of the total Atlantic economy (GDP of \$31.7 billion in 1986 dollars). Despite the job gains resulting from the Agency's activities, overall net job growth has not kept up with the increase in those seeking work because of severe job losses occurring simultaneously. For example, layoffs and closures among major employers total approximately 35,000 over the last two years alone. Nevertheless, without ACOA's activity, the economic situation would be much worse.

Improved Business Optimism and Confidence

At a time when the region was still struggling to recover from the downturn of the early 1980s and business confidence and investment were at a low level, the Agency was able to quickly put in place a program tailored to the needs of Atlantic small business. The response by the region's entrepreneurs, over eight times the level of earlier programs, demonstrates the positive impact of ACOA support on business optimism.

The Agency has focused on small and medium-sized businesses, with over 75% of support under the Action Program going to projects of less than \$1 million in costs since 1989. By helping business succeed (more than 80% of entrepreneurs supported by the Action and COOPERATION Programs indicated that their project was successful in meeting its objectives), ACOA has contributed to a new sense of confidence in the region as a place to invest and do business. It is important to note that the success rate for ACOA-assisted projects is much higher than projects which do not receive ACOA support. Over 90% of new businesses supported by the Agency are successful, whereas 52% of new businesses started in the Atlantic region failed within the first three years of operation. This is due in large part to the fact that projects are thoroughly scrutinized before approval and carefully monitored. Also, the Agency has established programs to provide advice and guidance to business clients.

Despite the Agency's contribution programs, the success of Atlantic business is constrained in part by a lack of equity capital. The supply of venture capital would have to at least double just to make it comparable to that available in Central Canada. ACOA has not yet effectively addressed the need to increase the supply of venture capital from private sources.

The Agency has introduced, on a pilot basis, a program to support training by Atlantic business. However, no appreciable increase in training activity has yet resulted. Given the importance of training for competitiveness and success, support for training needs to be improved.

ACOA has provided broad-based support to business activities as a means of stimulating entrepreneurship and risk taking. Competitiveness and growth, namely, the application of technology, marketing and training remain important issues for the Agency.

Entrepreneurship - Increased Interest in the Self-Employment Option

Support to entrepreneurship is at the heart of the Agency's mission and Agency activities go well beyond the provision of risk capital. The Agency's initiatives in the areas of promotion

of the entrepreneurship option, education and training, and development of community-based support for entrepreneurs are paying off. Independent surveys show that the "intent" of Atlantic Canadians to "start their own business within two years" has increased from 7% in 1991 to 12% in 1993. Self-employment increased by 7.3% in Atlantic Canada between 1989 and 1991, compared to 4.8% for Canada.

Increased Responsibility Assumed by the Private Sector

Under the Action Program in the first year alone, ACOA initiated over 300 partnerships with the private sector to provide support to small business. There are numerous examples of economic sectors, including finfish aquaculture in New Brunswick, bio-technology in Prince Edward Island, computer software in Nova Scotia and marine communications in Newfoundland, where the private sector is taking charge of development. In these and other instances, with encouragement from ACOA, small business has recognized the leverage to be obtained from forming strategic alliances to improve access to business information and acquire technological and marketing expertise as well as financing.

By encouraging partnerships leading to greater investment from the private sector, ACOA has been able to increase the leverage on its support under the Action Program. For every ACOA dollar, the private sector invested \$1.70 in 1988-89 and increased it to \$2.30 in 1992-93. ACOA does not provide grants to businesses. It provides contributions which have strict performance conditions and which, if over \$100,000, are repayable. Repayability adds to the leverage on expenditures, as these funds once repaid can be "recycled" to support additional projects.

However, the non-profit sector, such as universities, research institutes and business associations, has the potential to do much more. The Agency needs to find innovative ways to enlist their support in areas such as commercializing technology.

Improved Coordination of Regional Development Programming

The COOPERATION Program is an important vehicle for coordinating federal and federal-provincial development activities. An independent evaluation by the Coopers and Lybrand Consulting Group concluded that the COOPERATION Program has resulted in a more coordinated regional approach to economic development and that the process has been improved by the creation of ACOA with its coordination mandate. Working with federal departments and provincial governments, agreement was obtained to prioritize, develop and coordinate federal-provincial efforts in regional development.

Improved Federal-Provincial Relations

The evaluation of the COOPERATION Program found that the increased efforts at coordination had resulted in improved consultations and communication and that federal-provincial relations were stronger as a result of the Program.

A More Effective Voice for the Region

As a result of the Agency's ongoing consultation and through its Advocacy and Coordination efforts, the region's concerns are better reflected, not only in the Agency's programming, but also in federal policies.

As a result of feedback from the business community, the Action Program has been continuously modified to meet regional needs in the areas of marketing, technology transfer, training and advisory and diagnostic services.

The Atlantic region has received important economic benefits from ACOA's Advocacy on government procurement decisions. The latest available data indicate that federal purchases in the region are up significantly, as compared to the period prior to 1987. Another example of advocacy benefits is the trade area where the Agency successfully advocated that regional development subsidies should be non-countervailable under the General Agreement on Tariffs and Trade.

Despite these accomplishments, the Agency has not yet given the Advocacy role the attention it deserves, given that it can potentially have a greater impact than direct financial support to business. With increasingly scarce resources, ensuring that federal expenditures are making their maximum contribution to regional development becomes even more important.

An Integrated Region-Wide Approach to Development

The Agency has only recently focused on this area, but it has been increasingly able, in a number of important areas, to bring about a region-wide approach to areas of common concern. In areas such as entrepreneurship development, tourism and strategic technologies such as geomatics, it has been possible to bring together the provinces to develop a coordinated and more effective approach.

The Maritime provinces (in some instances with the involvement of Newfoundland) have adopted an agenda for regional cooperation in a number of important development areas. Because of its small population and economy, increased regional cooperation is essential if the Atlantic provinces are to compete effectively. As the only economic development department in Atlantic Canada with a regional perspective and mandate, ACOA is in a position to play a greater role in improving region-wide cooperation.

Improved Decision-Making

Decision-making authority is highly decentralized, making for quicker decisions and front-line managers are empowered to assist entrepreneurs to turn viable business ideas into reality. Well over 90% of decision-making can be done from the regional offices.

Information and evaluation requirements have been streamlined, particularly for small and medium-sized businesses. In the evaluation of the Action Program, over 85% of clients found the information requested easy to obtain. This compares to 65% of clients who reported that they found it easy to apply under the earlier Industrial and Regional Development Program.

STRENGTHS OF THE REGIONAL AGENCY APPROACH

Credible Federal Presence

Many of the benefits for the region have been due to the fact that the regional agency approach has resulted in a visible and credible federal presence in the region. This has produced benefits for the federal government in terms of an improved perception of the effectiveness of the federal role. By 1992, some 77% of the region's population knew of the Agency, and 65% believed it was successful in meeting its mandate of promoting long-term economic development. Increasingly, people are looking to ACOA when they look to government for action, because it is accessible and has a presence in the region.

Greater Responsiveness

Because decisions are made in the region with the advice of Atlantic Canadians, the Agency is more responsive to local conditions and can act more quickly than its predecessors. The fact that within eight months of its creation ACOA was able to introduce the Action Program and have the moratorium on ERDAs removed is an excellent example of responsiveness. ACOA has also showed the ability to adapt its programs quickly to meet changing business needs through consultation and an ongoing relationship with the private sector.

Improved Federal Leadership Role

As a "generalist" agency with a broad mandate for economic development across the Atlantic region, ACOA is in a unique position to play the leadership role for the federal government. ACOA and other federal departments (including Agriculture and Agri-Food Canada; Canadian Heritage Canada; Environment Canada; Federal Business Development Bank; Fisheries and Oceans Canada; Foreign Affairs and International Trade Canada; Human Resources Development Canada; Industry Canada; National Research Council; Natural Resources Canada; Public Works and Government Services Canada; and Transport Canada) are working together to coordinate the application of the national policy agenda. The Agency is increasingly taking responsibility for coordinating the economic development aspects of federal programs. The closure of Canadian Forces Base in Summerside and the Hibernia megaproject are examples of where ACOA has been instrumental in using federal government programs to, in the first case, minimize economic dislocation and, in the second case, maximize benefits in the region.

Improved Federal-Provincial Coordination

The regional agency approach, with its ability to design programs at the local level, has been able to reconcile federal priorities and regional development needs. The expenditures under the COOPERATION Program have been increasingly directed towards the federal priorities represented by ACOA's key strategic themes. Expenditures in these areas are expected to increase to 45% of expenditures in 1995, as compared to 14% in 1989. These themes mesh well with the development strategies of the provincial governments. The evaluation of the COOPERATION Program found that the mechanism of a strong regionally-based federal agency with a mandate to coordinate economic development is necessary to address the region's challenges and changing economic circumstances.

However, there are a large number of business assistance programs with similar objectives and clientele. The Action and COOPERATION Program evaluations found that the overlap of programs and delivery organizations was perceived as a problem. As the Agency with the lead role in the Atlantic region for delivering assistance to small and medium-sized businesses, ACOA is in a position to provide leadership in efforts to streamline business assistance.

MYTHS AND REALITIES

1. MYTH:

Regional development programs do not work. Governments have tried for years to change the economic circumstances in Atlantic Canada without success.

REALITY:

Regional development efforts have had an impact. During the period from 1987 to 1992, GDP per capita in the Atlantic region has increased from 71.6% of the national average in 1987, to 75.4% in 1992.

- It is important to keep expectations realistic. Regional development spending is very small in relation to the size of the problem: less than 1% of Atlantic GDP and less than 3% of total federal spending in the region.
- Independent evaluations of the Action and COOPERATION Programs indicate that the Programs have added \$1.4 billion to the region's GDP over the 1987-92 period.
- Without these programs, the gap would not have narrowed nearly as much. GDP per capita would be 72.2% of the Canada average, instead of 75.4%.

2. MYTH:

Regional development is simply putting good money after bad and is a waste of taxpayers' money at a time when Canada has serious debt problems.

REALITY:

Taxes generated on increased sales, income and jobs resulting from regional development activity exceed expenditures on the programs.

Independent evaluations of the Action and COOPERATION Programs demonstrate that by 1992, \$240 million in taxes were generated on \$290 million of program spending. By 1999, taxes will reach \$600 million without further expenditures beyond current commitments. Over the 1987-99 period, total tax revenues are forecast at \$3.8 billion compared to \$2 billion in expenditures.

3. **MYTH:**

Regional spending in the Atlantic region is doing no real good. ACOA is simply giving money to businesspeople who do not need it.

REALITY:

An independent evaluation (by Price Waterhouse) showed that only 8% of all projects would have proceeded as planned without ACOA assistance.

4. **MYTH:**

Regional spending simply leads to failed business projects and losses to the taxpayer.

REALITY:

The failure rate of ACOA-assisted businesses is considerably lower than the overall rate of business failures in the Atlantic region.

The failure rate of newly established businesses under the Action Program is 10%. Based on Statistics Canada data, 52% of new businesses in Atlantic Canada fail within the first three years.

The real test of the worth of regional spending is the benefits related to the costs. For the Action Program, every dollar invested (including expenditures on failed enterprises), returned \$4.20 in terms of increased output and public benefits (additional taxes and Unemployment Insurance savings).

5. MYTH:

Many projects assisted by the Agency are from fly-by-night companies and are simply ripoffs to the taxpayer.

REALITY:

ACOA works primarily with small and medium-sized businesses rooted in the Atlantic region.

The Government does not give grants to business. Investment is in the form of contributions. All contributions have strict performance conditions and all contributions over \$100,000 are repayable. With repayable contributions, the Agency controls and monitors the project for as long as 10 years, in some cases.

The idea of widespread ripoffs is simply not true; 94% of ACOA projects are successful. This is due in large part to the fact that the Agency carefully scrutinizes the project before approval and regularly monitors post-approval activity.

According to an independent evaluation by Price Waterhouse, projects assisted by the Action Program had a 96% success rate in creating jobs.

6. MYTH:

Regional development spending in the Atlantic region hurts the national economy by encouraging businesses to locate where they cannot be competitive in the long term.

REALITY:

The Agency's strategy is based upon investing in local businesses, loyal to the region, and building upon regional strengths. Only 12% of Action Program assistance has gone to firms from outside the region to establish plants in the region.

"For the future, we would see the continued existence of an organization with a similar role to ACOA continuing to be an integral part of the federal infrastructure in the region. We also believe that there must continue to be a strong voice within the Federal Cabinet on behalf of the economic development needs of Atlantic Canada. There must be an ongoing, possibly enhanced role for the federal government in fostering Entrepreneurship within the region, and a greater role in partnering with not-for-profit and community groups in local areas. Information and financial support for small businesses throughout the region must also continue to be an integral part of the federal government's specific "Atlantic" mandate."

*Donald G. Newman, Chairman
Atlantic Provinces Chamber of Commerce
News Release, October 29, 1993*

Notes

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